



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

EXECUTIVE OFFICE

December 11, 2000

In reply refer to: DFW-2

Energy Northwest
P. O. Box 968
Richland, Washington 99352

Dear Members of the Energy Northwest Executive Board:

As all of you are aware, the Bonneville Power Administration (BPA) faces many challenges and constraints. The Energy Northwest/BPA relationship has helped BPA meet some of those challenges, such as through the dramatic increase in efficiency of Columbia Generating Station operations over the last several years and through the ongoing refinancing of the Energy Northwest debt. BPA continues to face pressures to keep costs and rates as low as possible. BPA also must sustain a capital spending program that will maintain the reliability and capability of the Federal hydroelectric and transmission system within a fixed borrowing limit from the U.S. Treasury, BPA's only source of borrowing for Federal capital projects. Given current requirements for BPA capital spending and the structure of BPA's existing debt obligations, BPA will exhaust its U.S. Treasury borrowing authority within a few years. This would result in either significant rate increases to fund capital projects out of current revenues or the curtailment of necessary capital projects.

In response to this situation, BPA and Energy Northwest finance staffs have been examining debt management alternatives that would allow BPA to take advantage of the synergies between BPA's Federal debt and Energy Northwest's municipal debt. Among these alternatives are a group of debt management actions that will allow more rapid amortization of Federal debt, thereby reducing ratepayers overall cost of debt in BPA rates and preserving BPA's borrowing authority from the U.S. Treasury.

These actions include the extension of the final maturity on the debt associated with the Columbia Generating Station from its current maturity of July 1, 2012 to July 1, 2018. This extension will significantly lower the debt service on the Columbia Generating Station between 2001 and 2012 and BPA's net billing obligation related to that debt service. The cash freed up through this reduced net billing obligation can then be used to amortize Federal debt more rapidly, resulting in reduced pressure on BPA's U.S. Treasury borrowing authority limit and lower interest expense for the aggregate portfolio of Energy Northwest and BPA debt.

BPA estimates that interest savings from this type of program would be approximately \$90 to \$150 million on a net present value basis, depending on actual interest rates when transactions under the program are completed and the actual size of the program. These savings, combined

with the orderly continuation of BPA's capital program, represent a large potential benefit to the ratepayers of the Pacific Northwest.

Therefore, BPA requested that the Energy Northwest Executive Board approve a 2000 Refunding Plan that authorizes the extension of the final maturity on the bonds associated with the Columbia Generating Station from July 1, 2012 to July 1, 2018.

BPA recognizes that on a stand-alone basis for Energy Northwest, this extension will provide no net savings from the proposed changes in the Energy Northwest debt. The savings result when the shift in cash flow from the extension of the Columbia Generating Station debt is used to amortize Federal debt. Therefore, BPA expects that BPA and Energy Northwest staffs will together develop the details of the program to achieve a savings target of zero net present value or better for the total of all the changes in Energy Northwest debt without consideration of the savings resulting from Federal debt management actions. An expanded use of variable rate debt should help achieve that target.

BPA also recognizes that, while resulting in significantly lower Energy Northwest debt service requirements between 2001 and 2012, the extension of the Columbia Generating Station debt substantially increases the debt service obligation for the period between 2013 and 2018. For BPA's financial picture as a whole, this increase in Energy Northwest debt service requirements between 2013 and 2018 will be offset by reductions in Federal debt service obligations from the increased level of amortization of Federal debt during the preceding period than would take place without this program. However, given the significant increase in the Energy Northwest debt service from 2013 to 2018, BPA again expects BPA and Energy Northwest staffs to carry out this program with a target of levelizing total Energy Northwest debt service during that 2013 to 2018 time period, to the extent that remains consistent with the overall objectives of the program; i.e. lowering costs and managing BPA's U.S. Treasury borrowing authority.

The success of this program in achieving its objectives depends both on the successful completion of the extension of the Columbia Generating Station debt and on the disciplined application of the proceeds from that action by BPA to amortize more Federal debt than would otherwise be scheduled for amortization. BPA is committed to the objectives of this proposed program and to taking the actions required to fully implement the program. You have BPA's commitment that this increased amortization will equal the reduction in BPA's net billing obligation resulting from debt management actions under this program on an annual basis. Only under extreme financial pressure would BPA consider deviating from the actions required to implement this program.

In each year between 2000 and 2006, BPA will amortize an amount of Federal debt above and beyond what has been scheduled in the 1996 and 2000 BPA rate cases for amortization during that period. For the period of 2007 to 2013, it is BPA policy to take debt management actions that assure that reductions in net billing obligations resulting from actions under this program also result in comparably higher Federal debt amortization levels. These debt management

actions will include the structuring of new U.S. Treasury borrowings to assure that BPA Federal repayment studies result in the higher amortization levels. In order to keep the Energy Northwest Executive Board informed on the progress of the program, BPA will provide a report to the Executive Board on no less than an annual basis.

Thank you for your thorough consideration and approval of this proposal.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen J. Wright". The signature is fluid and cursive, with the first name "Stephen" and last name "Wright" clearly distinguishable.

Stephen J. Wright
Acting Administrator and Chief Executive Officer